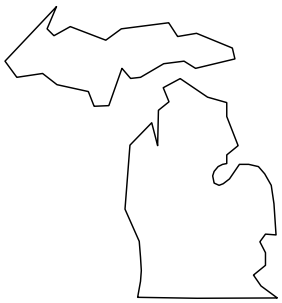
DEPARTMENT OF COMMUNITY HEALTH

FOLLOW-UP AUDIT OF THE MI CHOICE HOME AND COMMUNITY BASED SERVICES WAIVER FOR THE ELDERLY AND DISABLED



Office of Audit
Special Audits, Review and Compliance Section
October 2006

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

October 23, 2006

Ms. Janet D. Olszewski, Director
Department of Community Health
Capitol View Building, 7th Floor
201 Townsend Street
Lansing, Michigan 48933

Dear Ms. Olszewski:

This is our report on our follow-up audit of the MI Choice Home and Community Based Services Waiver for the elderly and disabled for the period October 2002 through September 2004.

This report contains an introduction; audit scope and methodology; objective, conclusion, findings and recommendations.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

James B. Hennessey, Director
Office of Audit
Internal Auditor

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INTRODUCTION

In February 1992, the Michigan Department of Community Health (MDCH) received approval from the United States Department of Health and Human Services, Health Care Finance Administration (HCFA), now called the Centers for Medicare and Medicaid Services (CMS), to implement the Home and Community Based Waiver for the Elderly and Disabled. HCFA initially approved the program for implementation in six regions of the state. In 1996 HCFA approved a seventh region. On April 1, 1998, HCFA granted approval to expand the program to the entire state, which now consists of 14 regions. MDCH changed the name of the program, effective April 1, 1998, to the MI Choice Home and Community Based Services Waiver for the Elderly and Disabled (Waiver).

The intent of the Waiver is to provide home and community based services to allow disabled adults (age 18 or older) and the elderly who are eligible for Medicaid covered nursing facility services to remain in the community. The Waiver is financed with state and federal funds. MDCH is responsible for administering these funds and developing programmatic and financial requirements relative to the Waiver.

The Waiver is currently under the operational responsibility of the Administrative Support and Contract Development Services (ASCDS) section of the MDCH, within the Bureau of Medicaid Financial Management and Administrative Services. MDCH contracts with community agencies referred to as MI Choice Contractors (Contractors) to administer the Waiver. Contractors include Area Agencies on Aging (AAAs), Senior Services Organizations, Home Health Agencies, and Community Mental Health Service Providers.

During FY 2003, the State budgeted $99,500,000 for Contractors serving clients in the Waiver program. MDCH calculates an individual maximum budget amount for each Contractor. These budgeted amounts are calculated based on several factors, which

include historical budgets, care management and administrative reimbursements based on participant days, and per participant day (PPD) rates calculated from prior years. The amount reimbursed to each Contractor is restricted to the budget amount stated in its contract.

Each participant in the Waiver program must meet the requirements for the nursing facility level of care and need and receive at least one Waiver service. Effective October 1, 2003, personal care and personal care supervision were combined through an approved amendment to the Waiver application "into one service to be provided under the waiver as personal care. The Waiver application concluded that the State's request to combine these services could be approved because the provider qualification and training requirements for personal care were more stringent under the waiver than under the State Plan. The Waiver offers respite care, home delivered meals, homemaker services, non-medical transportation, personal emergency response systems, chore services, private duty nursing, personal care supervision, adult day care, counseling, medical supplies and durable medical equipment (not covered under the State Plan), training (physical or occupational therapy), and home modifications (environmental).

Each Contractor is responsible for enrolling recipients in the program. Recipients either request Waiver services from the Contractor directly or are referred through a referral agency. The Contractor then conducts a screening process, usually over the telephone, and makes an initial determination of potential eligibility. A registered nurse/social worker team (care managers) then conducts an assessment to determine the individual's living situation, health and functional status, and social interaction and obtains the financial information needed to determine Medicaid eligibility. Through this assessment, the type and level of services are determined and eligible recipients are informed of the alternatives available under the Waiver and given the choice of either institutional or home and community based care.

Once the assessment has been completed, the care managers develop a plan of care. This plan is designed to address problems and concerns identified during the assessment. The

care managers arrange for the services in the plan of care, either using other Medicaid enrolled providers, or using services directly purchased by the Contractors.

Contractors request cash advances from MDCH based on their estimation of expected service and administrative costs. At the end of the contract period, each Contractor's final payable or receivable amount is determined through a settlement process. Aggregated average service costs of $32 per recipient day or less, which exclude administration, are paid by MDCH. Aggregated average service costs between $32 and $36 per recipient day, are shared on a risk basis between MDCH and the Contractor. Aggregated average service costs in excess of $36 per recipient day are the responsibility of the Contractor. Contractors are also paid various per diem rates for administration.

For contracts ended September 30, 2003, 9,122 consumers were served for a total of 2,575,329 participant days at a total cost of $97,378,340. The average overall cost of providing direct services to Waiver consumers during the contract period ended September 30, 2003 was $28.49 per beneficiary day. This total does not include an average overall administrative cost of $9.32 per beneficiary day. Personal care was the most frequently used service category followed by personal emergency response systems, homemaker services, and home delivered meals.

AUDIT OBJECTIVE

Our audit objective was to assess whether the MDCH's and Contractors' internal control processes and procedures were effective to ensure that services were provided and funds were expended in accordance with state and federal program requirements.

AUDIT SCOPE AND METHODOLOGY

This audit is a follow-up to the audit we completed on July 8, 2002 of the Waiver program. Our audit scope included an examination of the Waiver program for contracts from October 1, 2002 through September 30, 2004. We reviewed relevant MDCH policies and procedures. We examined contracts for adherence to applicable guidelines,

rules and regulations. We examined work papers from our previous audit of the Waiver program. We interviewed selected staff from ASCDS and MDCH Bureau of Finance. We also examined monitoring processes employed by ASCDS.

We judgmentally selected 7 of the 21 Contractors serving 9 of the 14 regions in the state and examined each of these Contractors. We examined the Contractors' relevant policies and procedures, financial status reports, contracts with subcontractors, reported expenditures, and reconciled services paid by Contractors to services recorded on the MI-Choice Information System (MICIS). In addition, we examined the Contractors' monitoring activities of subcontracts and documentation from its subcontractors showing evidence of annual in-service training and criminal background checks for its employees.

We judgmentally selected 72 consumers participating in the Waiver program and examined services provided. We examined documentation maintained in the clinical files to determine compliance with applicable contracts, policies and procedures; supporting documentation for the billing data entered into the MICIS; and supporting documentation for services billed by subcontractors to the Contractors.

Our audit began with an entrance meeting on August 6, 2004 and ended with an exit meeting on August 31, 2006.

CONCLUSION

Objective: To assess whether the MDCH's and Contractors' internal control processes and procedures were effective to ensure that services were provided and funds were expended in accordance with state and federal program requirements.

Conclusion: MDCH's and Contractors' internal control processes and procedures were generally not effective to ensure that services were provided and funds were expended in accordance with state and federal program requirements. We found exceptions relating to Contractor compliance with the Waiver application, contract terms, and applicable guidelines (Findings 1, 2, and 3); MDCH policies and instructions (Findings 4); contract monitoring by MDCH and the Contractors (Findings 5 and 6); payment authorization

documentation (Finding 7); recording of billing and contract data in the system (Finding 8); the establishment of administration rates (Finding 9); excess administration funding (Finding 10); cost allocation plans (Finding 11); and contract settlements (Finding 12).

FINDINGS AND RECOMMENDATIONS

Finding

1. Contractor Compliance with Waiver Application

MDCH had not implemented procedures to ensure that Contractors always complied with the requirements of the Waiver application.

The contracts executed by MDCH required the Contractors to administer the Waiver in accordance with the terms and conditions outlined in the Waiver application. The Waiver application requires that a registered nurse/social worker team (both licensed in the state) perform the initial level of care evaluations and re-evaluations. All plans of care must be reviewed every 90 days by a registered nurse/social worker team and must have consumer approval for services prior to implementation. The consumer will be given the choice of either institutional or home and community-based services and presented with the MDCH appeal brochure.

Our review of 71 consumer files at six Contractors disclosed:

a. A registered nurse/social worker team was not always utilized for the initial evaluation at three of the six Contractors. Both a registered nurse and social worker did not complete fourteen (32%) of the 44 initial evaluations at these three Contractors.

b. Two of the six Contractors did not always complete reassessments every 90 days. Reassessments were not always completed within 90 days for five of the 24 consumers at these two Contractors. Documented justification for these delays was not found in the clinical records.

c. Consumer approval was not always documented prior to implementation of the initial plan of care at five of the six contractors. Of the 71 consumer files examined, 12 (17%) did not have documentation showing the consumer approved the services prior to the implementation of the initial plan of care.

d. Verification that the consumer received notification of appeal rights was not always documented at three of the six contractors. Of the 71 consumer files examined, 14 (20%) did not have documentation of receipt of notification of appeal rights.

Contractor compliance with the Waiver application requirements are essential to ensure that appropriate and necessary services are being rendered to individuals that meet the necessary program qualifications. By not performing adequate oversight over the contractors, DCH has no way to evaluate the effectiveness of the contractor's performance.

Recommendation

We again recommend that MDCH take steps to improve its monitoring activities to ensure the Contractors are in compliance with Waiver application requirements.

Finding

2. Contractor Compliance with Contract Terms and Applicable Guidelines

MDCH had not implemented procedures to ensure that Contractors always complied with the contract terms and applicable guidelines.

In addition to agreeing to the terms of the Waiver application, Contractors were contractually obligated to comply with Care Management Performance Criteria, Waiver Program Provider Monitoring Plan, and other MDCH policies enforcing the Waiver program.

Our testing of applicable guidelines disclosed the following:

a. Contractors did not always obtain written contracts when subcontracting for services. The contract between MDCH and the Contractors indicates, "That a written subcontract is executed by all affected parties prior to the initiation of any new subcontract activity." The contract goes on to say, "That any executed subcontract to this Agreement shall require the subcontractor to comply with all applicable terms and conditions of this Agreement." We reviewed 100 contracts between Contractors and their subcontractors. We

found 8 (8%) instances where contracts were either executed after the beginning of the contract period or the contracts themselves were not dated upon signing. In addition, we found 6 (6%) instances where the cost per unit in the contract did not match the rate in which the subcontractor was being reimbursed. Finally, we found 1 (1%) instance where a contract was not on file for a subcontractor providing liquid home delivered meals to Waiver clients. Without the appropriate contracts in place, it may be difficult for the Contractor to enforce compliance by their subcontractors with all of the applicable terms and conditions of the contract between MDCH and the Contractor. In addition, MDCH cannot be assured that services are being rendered efficiently and effectively.

b. Two contractors failed to identify the frequency, duration, and payment requirements in their Care Plan reports. One Contractor stated in their Care Plan Report (a MICIS report) that "days/units/times may vary" and that the provider, "…will bill according to services provided." Another Contractor stated in their Care Plans the number of units provided on a weekly or monthly basis, with no mention of specific day or time. Use of wording such as this contradicts OSA Waiver Policy Manual requirements which indicate, "The care plan also establishes the frequency and duration of each service (including the day of the week and the time of day), the provider, the payment source, the number of units per visit/per week, the cost per unit and total monthly cost for each service provided." By not requiring Contractors to identify the frequency and duration of services in the care plans, there is no way to determine whether a Waiver client's needs are being properly assessed to assure that only necessary and proper services are being provided.

c. Employees of subcontractors did not always provide their employees with the required training. Waiver program guidelines state that employees of subcontractors who provide personal care must receive, at a minimum, 2 in-service training sessions per year. We found 8 (40%) out of 20 instances where employees of subcontractors did not receive the necessary training during FY 2004.

d. One subcontractor did not perform a criminal background check on one of its employees prior to permitting the employee to enter the home of a Waiver client. The Waiver application requires criminal background checks to be completed on paid staff prior to entering the home of a Waiver client.

e. Social workers responsible for preparing the care plans did not always have the requisite requirements. The Waiver application indicates that social workers that prepare plans of care "…must have at least a bachelor's degree in social work or be qualified by three years of experience in coordinating home and community based care for elderly or disabled persons." We found 3 (7%) of 41 social workers responsible for preparing plans of care that did not meet these criteria.

f. One Contractor has never had a financial audit completed. The Waiver contract indicates, "At the minimum, the Department requires a financial audit, prepared in accordance with generally accepted auditing standards (GAAS). If the Contractor is already subject to the Single Audit requirements, a copy of that audit and the management letter may be sent to the Department in lieu of a copy of a financial audit prepared in accordance with generally accepted auditing standards within the aforementioned timeframes."

Adherence to contract requirements and program guidelines are essential to providing some level of assurance that program funds are being properly spent and services are being appropriately rendered. By not performing adequate oversight over the Contractors, DCH cannot be assured that contract requirements are being satisfied.

Recommendation

We again recommend that MDCH monitor the activities of its Contractors to ensure compliance with contract terms and applicable guidelines.

Finding

3. Documentation of Services

MDCH has not implemented procedures to ensure that subcontractors retain adequate supporting documentation of services provided as required by contract.

The contracts between MDCH and the Contractors states, "The Contractor in accordance with the general purposes and objectives of this Agreement will…Maintain adequate program and fiscal records and files including source documentation to support program activities and all expenditures made under the terms of this Agreement, as required." The contract also states that Contractors will, "Assure that all terms of the Agreement will be appropriately adhered to and that records and detailed documentation for the project or program identified in this Agreement will be maintained for a period of not less than six (6) years from the date of termination, the date of submission of the final expenditure report or until litigation and audit findings have been resolved." Requirements of the contracts between MDCH and the Contractors also become requirements for the subcontractors since the contracts between MDCH and the Contractors indicate, "That any executed subcontract to this Agreement shall require the subcontractor to comply with all applicable terms and conditions of this agreement."

We compared 75,387 units of service, which were contained in the billing reports for 72 consumers, to the documentation supporting service delivery. Based on our examination, 40,901 (54%) of the units tested were not properly documented.

Some of the deficiencies were as follows:

a. Supporting documentation was missing for 3,015 (4%) of the units of service billed.
b. Supporting documentation excluded one or more of the following for 9,046 (12%) of the units of service examined: the date, the start time, the stop time, or the staff signature to attest that services were in fact performed.
c. A description of the services provided was not available in 8,293 (11%) instances.
d. In 754 (1%) instances, more units were billed than were documented.
e. In 754 (1%) instances, the description of the services billed on the invoice did not agree with the supporting documentation associated with the invoice.
f. When more than one service was being delivered during the same visit supporting documentation did not differentiate between the services.

Without adequate documentation in the consumer files, MDCH cannot ensure that consumers are receiving appropriate and necessary services.

Recommendation

We again recommend MDCH ensure that subcontractors are appropriately documenting services provided.

Finding

4. Waiver Policies and Instructions

MDCH issued policies and instructions regarding the operation of the Waiver program to the Contractors that conflict with the Waiver application.

The Waiver Policy Manual required Contractors to conduct all care management services in accordance with the Care Management Performance Criteria and Care Management Program Instructions for Completion of the Client Plan of Care, all of which had conflicts with the Waiver application and other MDCH guidelines. We found the following exceptions:

a. The Care Management Performance Criteria permits consumer cases classified as maintenance to be reassessed once every six months which is inconsistent with the requirements in the Waiver application. Pursuant to the Care Management Performance Criteria consumer cases are permitted to be classified as either active or maintenance. The Care Management Performance Criteria states, "Active cases are those cases with the most difficult, unstable or complex needs which require intensive CM involvement. Care managers classify cases as active when it is determined that the client requires reassessment at least every 90 days…Maintenance cases are more physically stable and less complex than active cases. CM monitoring is required less frequently…Maintenance clients are contacted by care managers a minimum of once every six months." The Waiver application requires a 90-day reassessment regardless of how the consumer case is classified. The Waiver application states, "Both nursing facilities and the Waiver are required to update the assessment and the care plan every 90 days or more frequently if a change in condition occurs."

b. The Waiver application contradicts itself in regards to the qualifications for social workers performing as care managers. While discussing the "Qualifications of Individuals Performing Initial Evaluation," the waiver application requires a team of care managers consisting of both a Registered Nurse and a Licensed Social Worker. The Waiver application then goes on to state "Social Workers must have at least a bachelor's degree in social work or be qualified by three years of experience in coordinating home and community based care for elderly or disable persons." This second requirement appears to conflict with the previous section by indicating that the social worker may not necessarily have to be licensed.

c. ASCDS prepared and issued <u>The Organized Health Care Delivery System Checklist</u> which directly contradicts the Care Management Performance Criteria dealing with potential conflict of interest. The Care Management Performance Criteria states, "AAA's ensure that the CM provider meets

requirements for service neutrality. Agencies that authorize services for care management clients may not provide those services directly, or have a direct or indirect ownership or controlling interest in, or a direct or indirect or affiliation or relationship…except where there is no other viable provider and a waiver is granted by OSA." We found one Contractor that was authorizing services and providing them through an agency, which they controlled. We were provided The Organized Health Care Delivery System Checklist by the ASCDS that states, "The waiver agent directly furnishes at least one Medicaid-covered service itself (i.e. with its own employees versus subcontracted employees)." This implies that it is appropriate for the Contractor to directly provide the services, which is contrary to the requirements set forth in the Care Management Performance Criteria that prohibits agencies from providing services to clients that they authorized.

Failure to ensure consistency between the Waiver application and applicable manuals, policies, procedures and directives may make it more difficult for MDCH to ensure that appropriate and necessary services are being provided to individuals qualified to be in the Waiver program. In addition, such inconsistencies make it difficult for Contractors to clearly understand what is expected.

Recommendation

We again recommend that MDCH review and revise as necessary all manuals, policies, procedures, and directives applicable to the Waiver program to ensure all terms of the Waiver application and other MDCH guidelines are being complied with and applied uniformly and consistently.

Finding

5. Contractor Monitoring of Subcontractors

MDCH has not implemented procedures to ensure that the Contractors' monitoring activities were performed in accordance with MDCH guidelines and were not sufficient to ensure that the monitoring activities were properly documented.

The MDCH Waiver Program Provider Monitoring Plan states, Annual on-site monitoring reviews are conducted by Organized Health Care Delivery Systems (OHCDS) staff for 10% of enrolled providers of recurrent services. This includes home help, personal care supervision, homemaker, home delivered meals, chore, transportation, in-home and out-of-home respite, adult day care, private duty nursing, counseling and personal emergency response systems services. Included within the Monitoring Plan is a monitoring tool, which is to be utilized by Contractors when conducting the required monitoring of a subcontractor. The Monitoring Plan states that provider reviews are to be performed "…using the standardized tool developed for this purpose." Any subcontractor monitoring reports that require corrective action are to be sent to MDCH within 30 days. The Contractor also must submit a copy of their monitoring schedule to MDCH by September 1st of each year. In addition, the Contractor must conduct at least two in-home visits to Waiver clients. "To accurately gauge the effectiveness of the service delivery, it is necessary to obtain feedback regarding service provision from the perspective of the client and/or caregiver. From the sample of client case records reviewed, the OHCDS reviewer selects a minimum of two waiver clients to conduct home visits with."

An examination of the monitoring policies and practices of the six Contractors disclosed:

a. All six Contractors provided monitoring schedules to MDCH; however none of them were submitted by September 1st as required by the Monitoring Plan.
b. Monitoring tools were not fully completed by three Contractors during their on-site reviews.
c. A list of client files reviewed during the on-site visit was not maintained by one Contractor.
d. One Contractor failed to conduct the two at-home visits required by the Monitoring Plan.

e. For all six Contractors, monitoring reports requiring corrective action were not sent to MDCH. During our visits to each of the six Contractors, we found at least one instance at each during FY 2004 where the Contractor cited issues that required corrective action from the subcontractor. We contacted ASCDS for copies of these reports and they informed us that none had been submitted for the six Contractors.

MDCH cannot be assured that necessary and appropriate services are being provided to individuals enrolled in the Waiver if it doesn't ensure that Contractors adequately monitor their subcontractors and document their monitoring activities.

Recommendations

We again recommend that MDCH take appropriate action to ensure that Contractors develop the appropriate monitoring policies and procedures to identify and correct any subcontractor deficiencies.

We again recommend that MDCH ensure the Contractors submit their monitoring reports that require corrective action.

Finding

6. MDCH Monitoring

MDCH did not monitor the Waiver program as required by the Waiver application. In addition, MDCH has not implemented the additional monitoring procedures it indicated would be in place following our July 2002 audit.

The Waiver application states, "The State assures that it will have in place a formal system by which it ensures the health and welfare of the individuals served on the waiver, through monitoring of the quality control procedures described in this waiver document (including Appendices). Monitoring will ensure that all provider standards and health and welfare assurances are continuously met, and that plans of care are periodically reviewed to ensure that the services furnished are consistent with the identified needs of the individuals. Through these procedures, the State will ensure the quality of services furnished under the waiver and the State plan to

waiver persons served on the waiver. The State further assures that all problems identified by this monitoring will be addressed in an appropriate and timely manner, consistent with the severity and nature of the deficiencies. An effective date of October 1, 2002 is requested."

Since our original audit was completed in July 2002, MDCH developed a new Quality Management Plan to assess and improve the quality of services and supports managed by the contractors in the Waiver program. This new plan outlined MDCH's goals and procedures for monitoring the Waiver program. ASCDS provided us with the new Quality Management Plan along with copies of the monitoring tools developed for completing their clinical and administrative reviews. It is evident that ASCDS has begun many of their new monitoring procedures; however, certain procedures have yet to be implemented. ASCDS still has not performed financial reviews of the Contractors. In addition, ASCDS has not completed any on-site reviews of program records as stated in the new plan. All current monitoring is being completed in-house. On-site testing of program and financial records would provide further assurance that contractors are providing necessary services efficiently and that all costs associated with the Waiver are reasonable and can be properly supported.

During our previous audit of the Waiver program, we recommended that MDCH define its monitoring responsibilities, ensure the performance of monitoring activities as required by the Waiver application and maintain documentation of testing and procedures utilized. In response to our audit finding, MDCH stated, "Data will be analyzed on a monthly basis to determine aggregate cost and utilization data; each waiver agent will be compared to the aggregate and reports will be forwarded for agent review…On a monthly basis, the team will run the data for a previous month (using three-month lag time) to identify data and compliance issues. The Long Term Care Bureau will be using its new monitoring tools in conjunction with on-site reviews of all the waiver agents at least once a year." ASCDS staff informed us that the monthly data reviews are not being completed at this time. In addition, they indicated that it is not clear to them what the previous

administrators of the Waiver program intended regarding the monthly aggregate cost and utilization analysis.

Recommendation

We recommend MDCH conduct its monitoring practices and reviews as stated in the Quality Management Plan and the Corrective Action Plan from the July 2002 audit or develop applicable monitoring procedures to comply with the requirements of the waiver application.

Finding

7. Payment Authorizations

MDCH had not implemented procedures to ensure that Contractors always authorized payments for services that agreed with the Care Plan Reports and which were readily supported by documentation in the consumer files.

The MICIS system is used by Contractors to record consumer information, plans of care, services provided and claims paid. The MICIS system was developed and is maintained by the Contractors through a contractual relationship with the Center for Information Management, Inc. (CIM). It should be noted that one Contractor has chosen to develop and utilize a different management information system for this purpose. Contractors enter all Waiver service invoices submitted by subcontractors into MICIS, regardless of when they paid subcontractors. MICIS subjects the services invoiced to various system edits. Services that match services approved in MICIS Care Plans or are approved scheduled exceptions are automatically approved. MICIS generates a variance report that lists services provided that do not match services in participants' care plans and also services approved in participants' care plans that were not billed. Contractors may authorize/override any variance that is listed on the variance report. Contractors may by-pass the MICIS variance edits process by checking the "verify option" to authorize all services invoiced that vary from care plans. MICIS also generates an exception report for services billed that are not found in the care plan. An exception requires that the care plan be updated on MICIS before the system will authorize the service. Therefore, the

Contractor has the ability to post/authorize any units of service regardless of whether the services were in the plans of care at the time of the service.

An examination of the billing information and Care Plan Reports on MICIS disclosed that 59 of the 72 consumer files tested included billed services that did not coincide completely with the Care Plan Reports in MICIS. The majority of the variances were likely due to the continuous changes in the consumers' service needs and the logistics of obtaining consumer approval. We found that some Contractors documented explanations for paid units of service that did not agree with MICIS plans of care. Although the appropriate approval/authorizations for the services may have been available in the consumers' files, the information was not included on the MICIS Care Plan Reports we were provided.

More effective use of the MICIS system could help provide assurance that services are being rendered and paid in accordance with the consumers' plans of care. Explanations documenting the reasons for authorizing services that were not paid in accordance with the initial plans of care would also help ensure that services rendered are appropriate and necessary.

Recommendations

We recommend that MDCH monitor Contractors to ensure that plans of care are updated in a timely manner.

We also recommend that MDCH monitor Contractors to ensure they maintain documentation for services approved that were not on the plan of care.

Finding

8. Entry of Billing and Contract Data into MICIS

MDCH had not implemented procedures to ensure that Contractors always accurately entered service invoices and contract data into their billing systems.

The Contractors enter the service providers invoicing and contract information for settlement purposes. We compared contracts and invoices for 72 consumers with

76,172 units of service to data posted on the Contractors' billing systems. Our comparison disclosed the following:

a. The invoiced service dates did not agree with the dates recorded on the billing systems for 391 (1%) units.
b. The units of service recorded on the billing systems exceeded the invoiced units of service for 793 (1%) units.
c. The units of service on the invoice exceeded the units recorded on the billing systems for 1,810 (3%) units.
d. The unit rate recorded in the billing systems and the unit rate reimbursed differed from the written contracted rates for 3,253 (4%) units.

Failure of Contractors to accurately enter billing and contract data into their billing systems resulted in unsupported or inappropriate payments in some cases. Improvement with respect to the billing and contract information would help to ensure that payments are being made for the correct amount and only for authorized and necessary services.

Recommendation

We again recommend MDCH ensure Contractors enter service invoices and contract data accurately into their billing systems, and Contractors maintain appropriate written documentation to support information entered.

Finding

9. Administration Rate Approval and Supporting Documentation

MDCH did not obtain written approval from CMS for using a per diem administration rate. Also, MDCH did not maintain sufficient documentation to support the amount established as a per diem administration rate.

Starting with contracts ending September 30, 1999, MDCH changed the administration reimbursement methodology from a cost settled reimbursement to a per diem reimbursement. MDCH reimburses Contractors a daily rate of either $9 or $10 per consumer for each day a consumer was enrolled in the Waiver program.

OMB Circular A-87 permits Federal agencies to work with States or other localities that wish to test alternative mechanisms for paying costs for administering Federal programs. OMB encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. OMB Circular A-87 provides for the use of a fee-for-service methodology for paying for administration costs; however, specific written approval should be obtained from CMS. Further, a CMS representative informed us that they expected per diem administration rates to be based on historical costs.

OMB Circular A-122 defines the cost principles that must be followed for determining the costs of grants, contracts and other agreements with non-profit organizations. Similar to OMB A-87, negotiated indirect rates not based on actual costs must be established in accordance with the cost principles and be approved by the federal cognizant agency. Payments under the Waiver are made primarily to non-profit and local government agencies. Administrative reimbursement for all Contractors during the audit period was $24,017,282, which is approximately 25% of the total funds spent on the Waiver program. Our examination of MDCH's documentation and methodologies used in establishing the per diem administration rates disclosed:

a. MDCH did not obtain written approval from CMS for the rates established to fund Contractor administrative costs.
b. MDCH did not maintain adequate supporting documentation detailing the use of historical costs as a basis for the per diem administration rates. The MDCH contracts do not require Contractors to separately account for administrative expenses. Without separate accounting for administrative expenses, MDCH is unable to determine historical costs.

c. MDCH did not maintain adequate supporting documentation to justify the disparity in per diem administration rates between Contractors. MDCH indicated they paid a higher per diem rate to supplement geographically large regions due to increased travel costs, etc. MDCH could not provide us with any documentation to support this assertion. Our testing did not reflect any correlation between geographic size and administrative cost per patient day.

Failure to document the methodology used to arrive at the administrative per diem and to obtain written approval from CMS for use of a per diem rate could result in a federal disallowance of administrative costs. By not requiring the Contractors to document and track actual administrative costs makes it difficult for MDCH to adjust future administrative per diem rates and to account for unspent administrative funds.

Recommendations

We again recommend MDCH obtain written approval from CMS for the use of per diem administration rates.

We again recommend MDCH require all Contractors to separately account for all administrative expenses.

We again recommend any per diem rates established by MDCH be determined and supported by appropriate documentation.

Finding

10. Excess Administration Funding

MDCH had not implemented procedures to ensure that Contractors reserved excess administration funding for the Medicaid program as recommended by CMS.

During FY 1999, the Waiver contract included the following phrases, "The contractor agrees that HCBS/ED Waiver funds can be used only to administer the waiver program according to the Health Care Financing Administration (HCFA)

approved waiver application including all amendments, under the conditions specified in this agreement. Waiver funds cannot be transferred to any other service if unexpended. Funds allocated as HCBS/ED service dollars cannot be transferred." We discovered during our testing that this terminology was taken out and no longer exists in the either the FY 2003 or 2004 contracts. We contacted CMS for their opinion on the appropriateness of this change in the Waiver program. A CMS representative stated it is not appropriate for Contractors to be using these funds for purposes other than Medicaid programs. She further indicated that excess Waiver funds should be restricted for use in Medicaid programs.

We found that four of the seven Contractors we audited received administration funding in excess of their actual costs. Excess funding for the four Contractors totaled $532,059 for FY 2003. One other Contractor could not provide us with audited financial statements detailing their actual administrative costs. None of the contractors we examined placed restrictions on the use of excess administrative funds. MDCH staff stated that as a reward for good management, Contractors could use any excess administrative funds for any purpose. MDCH further stated that the Contractors entered into the agreement with the expectation that they could retain excess administrative funds. However, MDCH could not provide us with any federal authority indicating that it is appropriate to use Medicaid funds for non-Medicaid purposes.

If MDCH does not include a requirement that the Contractors spend excess administrative funds on the Waiver or other Medicaid programs there is no assurance that all funds were spent appropriately. In addition, without proper authority and approval, MDCH could be subject to a federal cost disallowance.

Recommendation

We recommend MDCH require all Contractors to use Waiver funding only for expenses of the Waiver or other Medicaid programs, or in the alternative seek specific approval from CMS.

Finding

11. Cost Allocation Documentation

MDCH procedures were not sufficient to ensure that Contractors always maintained documentation of the methodologies utilized to determine cost allocations between programs in accordance with the Waiver contract.

The Waiver contract states, "Under this Agreement, allowable and reimbursable expenditures are those expenditures considered proper, necessary, and reasonable for the provision of services to the waiver participants. The Department is the final authority for the determination of allowable costs under this Agreement. The Contractor must maintain adequate systems of accounting, financial, and statistical data, and appropriate cost finding and cost allocation methodologies to ensure proper identification of all funds expended under this Agreement." In addition, the Waiver application states, "Both the individual providers and the OHCDS will be required to keep records of all payments for a period of not less than six years to support financial accountability."

We examined the cost allocations for seven Contractors. None of the seven Contractors were maintaining appropriate documentation to support all cost allocations to the Waiver program. For example, our review disclosed the following:

a. Payroll allocations for two Contractors were based on time studies and adjustments were made regularly as caseloads and circumstances changed. However, the documentation for the time studies and other adjustments were not maintained.
b. Another Contractor couldn't provide us any explanation on how their costs were allocated since the individuals responsible for the allocations no longer worked for the agency.
c. An additional Contractor allocated all of the expense from their MICIS contract to the Waiver even though MICIS was used for other programs.
d. Finally, one Contractor could not tell us which cost account the expense of maintaining the MICIS system was posted to.

Failure to maintain appropriate documented cost allocation plans makes it difficult for MDCH to monitor costs and develop or adjust administrative per diem rates in the future. By not ensuring that the cost allocation plans are documented and appropriate, MDCH could also be subjected to potential federal cost disallowances.

Recommendation

We again recommend MDCH ensure that all cost allocation plans utilized by Contractors are: supported by appropriate documentation; based upon appropriate methodologies; completed in accordance with the Waiver application and federal requirements; and retained for six years.

Finding

12. Contract Settlements

MDCH did not complete the September 30, 2003 contract settlements with Contractors in a timely manner. In addition, MDCH does not have written procedures documenting the process for calculating the contract settlements.

Each contract is subjected to a settlement process whereby the amounts advanced during the contract period are compared and reconciled to the amounts that should have been paid in accordance with the contract terms. MDCH should complete contract settlements in a timely manner as they may result in the return of funds to MDCH, and to ensure federal accounts payable and receivable balances are properly stated.

The Waiver contract indicates, "An initial settlement of the expenditures for the contract period will be prepared within ninety (90) days after the close of the contract period." Preliminary settlements for the contract period ended September 30, 2003 were completed July 13, 2004. The contract also indicates, "A final settlement will be computed within ninety (90) calendar days of the mailing of the initial settlement." Based on the contract timelines, final settlements should have been completed by March 31, 2004. Final settlements were not completed until September 23, 2004.

On September 8, 2004, we requested from MDCH a copy of the procedures used for calculating the contract settlements. We were informed by ASCDS staff that no written procedures exist for the completion of contract settlements. We were told the contract terms dictate the procedures that are needed for development of the settlement. We reviewed the Waiver contracts and did not find written procedures defining how contract settlements are to be prepared.

ASCDS should document in detail the procedures necessary for the completion of contract settlements to ensure that settlements are completed consistently and accurately.

Recommendation

We again recommend MDCH complete contract settlements on a timely basis. We also recommend MDCH develop procedures for the completion of contract settlements.

Glossary of Acronyms and Terms

AAAs	Area Agencies on Aging. Planning, advocacy, and administrative agencies that plan and provide needed services to seniors in specified geographic regions of the state.
Adult Day Care	Services furnished four or more hours per day on a regularly scheduled basis, for one or more days per week, in an outpatient setting, encompassing both health and social services needed to ensure the optimal functioning of the client.
Assessment	Used to collect information necessary to determine Waiver eligibility and identify consumer needs for development of the plan of care.
ASCDS	Administrative Support and Contract Development Services Section of the Michigan Department of Community Health.
Chore Services	Services needed to maintain the home in a clean, sanitary and safe environment. This service includes heavy household chores such as washing floors, windows and walls, tacking down loose rugs and tiles, moving heavy items of furniture in order to provide safe access inside the home for the recipient, and shoveling snow to provide access and egress.
CIM	Center for Information Management, Inc. developed and maintains MICIS for Contractors.
CMS	Centers for Medicare and Medicaid Services. Formerly HCFA.
Consumer	Individual receiving services through the Waiver, also called beneficiary, client, participant.
Contractors	MI Choice Contractors. Community agencies contracted to administer the Waiver. They include AAAs, Senior Services Organizations, Home Health Agencies, and Community Mental Health Service Providers.

Glossary of Acronyms and Terms

Counseling	Professional level counseling services seek to improve the Waiver client's emotional and social well-being through the resolution of personal problems and/or change in a client's social situation.
CTS	Client Tracking System. Computer system used by the Contractors prior to the implementation of MICIS to manage all required data for the Waiver program.
HCBS/ED	Home and Community Based Services for the Elderly and Disabled.
HCFA	United States Department of Health and Human Services, Health Care Finance Administration.
Home Delivered Meals	The provision of at least one nutritionally sound meal per day to persons who are dependent aged or physically disabled to care for their nutritional needs.
Homemaker	Services consisting of general household activities (meal preparation and routine household care) provided by a trained homemaker, when the individual regularly responsible for those activities is temporarily absent or unable to manage the home and care for him or herself and others in the home.
Home Modifications	Those physical adaptations to the home which are necessary to ensure the health, welfare and safety of the individual, or which enable the individual to function with greater independence in the home.
MDCH	Michigan Department of Community Health.
Medical Supplies and Durable Medical Equipment	Specialized medical equipment and supplies to include devices, controls or appliances that enable recipients to increase their abilities to perform activities of daily living, or to perceive, control or communicate with the environment in which they live. Also includes items necessary for life support, ancillary supplies and equipment necessary to the proper functioning of such items, and durable and non-durable medical equipment not available under the Medicaid State plan.

Glossary of Acronyms and Terms

MICIS	MI Choice Information System. Computer system used by the Contractors to record consumer information, plans of care, services provided, and paid claims. This system replaced the CTS in FY 98/99.
MSA	Medical Services Administration of the Michigan Department of Community Health.
NPR	National Performance Review.
OHCDS	Organized health care delivery systems.
OMB	Office of Management and Budget.
OMB Circular A-87	Cost Principles for State, Local, and Indian Tribal Governments.
OSA	Michigan Office of Services to the Aging. Type One agency within MDCH that collaborates in the administration of the Waiver.
PPD Rate	Per Participant Day Rate. The average cost per day for a Waiver client to be enrolled in the Waiver.
Personal Care	Services included in the State Plan and includes assistance with activities of daily living (e.g., bathing, eating, dressing, transferring, grooming, toileting); instrumental activities of daily living (meal preparation, shopping and errands, light housekeeping).
Personal Care Supervision	Supervising the care of the client by reminding, prompting, cueing and frequently directing the activities of daily living (eating, bathing, dressing, toileting, personal hygiene, taking of medications).
Personal Emergency Response System	An electronic device that enables certain high-risk patients to secure help in the event of an emergency.

Glossary of Acronyms and Terms

Plan of Care	Written plan that describes the medical and other services to be furnished, their frequency, and the type of provider who will furnish each. Also called the care plan.
Private Duty Nursing	Nursing procedures to meet the individual's health needs, including the provision of nursing treatments, observation and teaching.
Respite Care	Services given to individuals unable to care for themselves; provided on a short-term basis because of the absence or need for relief of those persons normally providing the care.
State Plan	A comprehensive written statement prepared by MDCH describing the nature of its Medicaid program and giving assurance that it will be administered in conformance with applicable requirements and regulations. It contains all the information necessary to obtain HCFA approval and will serve as a basis for federal financial participation in the program.
Training	Training services are instruction provided to a Waiver client or caregiver in either a one-to-one situation or a group basis to teach a variety of independent living skills, including the use of specialized or adaptive equipment or medically related procedures.
Transportation	Services offered in order to enable Waiver recipients to gain access to Waiver and other community services and resources.
Waiver	MI Choice Home and Community Based Services Waiver for the Elderly and Disabled. Previously called Home and Community Based Services for the Elderly and Disabled.
Waiver Application	Formal request submitted to CMS by the MDCH to obtain approval for a Medicaid home and community based services waiver under the authority of section 1915(c) of the Social Security Act.

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Finding Number:	One
Finding:	Contractor Compliance with Waiver Application
Recommendation:	We again recommend that MDCH take steps to improve its monitoring activities to ensure the Contractors are in compliance with Waiver application requirements.
Comments:	We agree with all parts of the finding with the exception of part b.
Corrective Action:	The monitoring tool, currently in use, has been updated each year since it was initiated in mid-2004. The MICQAR team (MI Choice Quality Assurance Review, contract with the U of M School of Nursing whose nurses perform on-site clinical quality assurance reviews) and in-house staff who perform on-site administrative quality assurance reviews both use this tool. Finding 1(a): The ASCDS is aware that some contractors were not completing initial assessments with both an RN and SW. In response, the ASCDS staff developed and implemented the *Care Management Service Performance Standards and Waiver Program Operating Criteria* (*Operating Criteria*) on October 1, 2005. Page 14 of the *Operating Criteria* states "An assessment is conducted…by qualified

care management teams comprised of registered nurses and social workers. Both members of the team complete the initial assessment." ASCDS staff clarified this requirement at numerous Waiver Director meetings. Additionally, the MICQAR team documents that assessments are completed by a care management team and ASCDS staff review each Waiver agent's policies and procedures to assure that teams are to complete initial assessments.

Finding 1(b):

We agree when the participants were considered open active. If they were open maintenance we do not agree. Reassessments for maintenance participants, more stable participants, vs. active participants, who are less stable, are due every 180 days, not every 90 days. This provision has been in state requirements documents since the Waiver began in 1992 and has not changed. Again, the monitoring processes as previously described and implemented will correct this finding if in fact the participants are open-active.

Finding 1(c):

Both the 2002/2003 and 2003/2004 Quality Assurance Reviews conducted by ASCDS staff, the MPHI contracted employees, and MICQAR found

some inadequacies in obtaining participant approvals prior to the implementation of services. Waiver agents found non-compliant have submitted corrective action plans to MDCH. In addition, ASCDS staff has presented, throughout 2006, a six-hour training titled *Care Management for the MI Choice Waiver* to 17 of the 21 Waiver agents with plans to train the remaining four. Obtaining participant approval for all services included in the plan of care is one of the subjects covered in this training.

Anticipated Completion Date: Corrective action was initiated on 1/1/2004 and is in effect for audit periods subsequent to that date.

Responsible Individual: James Schwartz, Manager ASCDS

DCH Audit Epilogue: The Waiver application in place at the time of this audit clearly stated that plans of care must be reviewed every 90 days. We found no discussion of maintenance vs. active cases in the current Waiver application. The conflict between the Waiver application (90 day requirement) and other Waiver documents (permitting stable vs. active case reviews) is discussed in finding #4. Whatever past practices or policies permitted or required is irrelevant to this finding as this finding only addresses compliance or non-compliance with the standards established by the current Waiver

application. If it is the intent of DCH to permit both 90 day reviews for active patients and 180 day reviews for maintenance cases, the current Waiver application should be changed/amended accordingly.

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Finding Number:	Two
Finding:	Contractor Compliance with Contract Terms and Applicable Guidelines
Recommendation:	We again recommend that MDCH monitor the activities of its Contractors to ensure compliance with contract terms and applicable guidelines.
Comments:	We agree with all parts of the finding with the exception of part b.
Corrective Action:	<u>Findings 2(a), (c), (d), and (e):</u> During the 2002/2003 quality assurance reviews (completed in 2005), ASCDS staff reviewed all subcontract templates for all 21 Waiver agents. All Waiver agents found out of compliance successfully executed corrective actions so that their consequent subcontracts were fully compliant to MDCH requirements. Additionally, ASCDS staff has begun a process for completing a comprehensive on-site Administrative Quality Assurance Review process. This process looks at 170 different aspects of administrative compliance to Waiver requirements. As a part of this quality assurance review process, MDCH staff reviews each Waiver agent's subcontractor files for adherence to state and federal requirements. Those

found out of compliance are required to initiate a corrective action plan.

Finding 2(b):

We agree with qualifications. ASCDS staff, MPHI contracted employees, and MICQAR found some Waiver agents out of compliance with frequency and duration on the plans of care while conducting the 2002/2003 and 2003/2004 Clinical Quality Assurance Reviews. All Waiver agents found to be out of compliance have submitted corrective action plans to ASCDS. The *Care Management for the MI Choice Waiver* training also addresses the issue of frequency and duration in the care planning process. ASCDS staff has advised the Waiver agents who have received the training to be as specific as possible when setting up frequency and duration for service provision. However, with person-centered planning and the nature of some services, it is impractical to always have frequency and duration in a plan match care delivery time and date routinely. ASCDS staff requested that Waiver agents at least list the number of days per week and number of units per day planned and authorized for service delivery for most Waiver services. However, some services such as non-medical transportation and the chore service of snow plowing are authorized to be used as needed.

Participant appointments and services that require transportation are subject to cancellation and rescheduling so they too cannot always be forecast to day and time.

Finding 2 (f):

ASCDS staff has notified the Waiver agent out of compliance and has required (in early 2005) the agent to undergo financial audits and to provide DCH with a copy of that the financial audit.

Anticipated Completion Date: Corrective actions were initiated on 1/1/2004 and are in effect for audit periods subsequent to that date.

Responsible Individual: James Schwartz, Manager ASCDS

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Finding Number:	Three
Finding:	Documentation of Services
Recommendation:	We again recommend MDCH ensure that subcontractors are appropriately documenting services provided.
Comments:	We agree. However, ASCDS staff feel a 1% error in items (d) and (g) are immaterial and insignificant.
Corrective Action:	We now have a monitoring tool in use by the MICQAR team and in-house staff who perform on-site administrative quality assurance reviews. Starting with the contract year beginning October 1, 2006, MDCH will require Waiver agents to submit all monitoring reports to ASCDS contract staff. The on-site Administrative Quality Assurance Reviews include an examination of billing records for a sample of each Waiver agent's contractors. MDCH staff examines the records of the Waiver agent and provider agency to assure compliance to documentation requirements.
Anticipated Completion Date:	October 1, 2006
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Four
Finding:	Waiver Policies and Instructions
Recommendation:	We again recommend that MDCH review and revise as necessary all manuals, policies, procedures, and directives applicable to the Waiver program to ensure all terms of the Waiver application and other MDCH guidelines are being complied with and applied uniformly and consistently.
Comments:	We agree with item (b) and disagree with items (a) and (c). However, due to changes we have made since 2004 and the anticipated changes to be made by LTC Policy and through the Waiver renewal process we see the finding 4(a) as a moot issue. As further explanation why we disagreed with item (a) we state: Both Michigan NFs and the Waiver program normally and coincidently reassess most Waiver participants and NFs residents formally every 90 days. However, the Waiver contract requirements distinguish between two types of open Waiver participants, active and maintenance and have since the program began in 1992. This has been an acceptable practice to CMS and has caused no audit exceptions in past CMS audits. Open maintenance participants must be reassessed within every 180 days or more frequently if change in

participant status occurs. MDCH needs to correct this inconsistency in our renewal. It is our intent to allow Waiver agencies to reassess less frequently for those participants who are more stable and for whom assessment status has not changed significantly since the prior assessment.

Finding 4 (b):

We agree, licensure for social workers did not occur in Michigan until July 2005; therefore, it was not possible for social workers to obtain licensure in Michigan prior to this date. We agree that the licensure requirement in the prior and current Waiver application was inconsistent for this reason. The Waiver Plan Appendix E-1 covers individuals responsible for the preparation of the plans of care. Previous sections covered individuals responsible for initial and re-evaluations of the level of care of participants. These are two distinct care manager functions. The difference in professional qualifications allows persons lacking the required service hours for full licensure as a social worker to gain experience so that they may ultimately become fully licensed in their field.

Finding 4(c):

We do not agree. It appears that the auditors may have failed to differentiate between the Waiver

program and other programs offered through OSA. This sentence pertains directly to **Care Management** clients, not Waiver participants. The Care Management program is another program offered by OSA. While Waiver care managers provide a care management function to their participants, the participants are not care management clients.

Corrective Action:

Since January 2004, DCH staff have developed, initiated, and implemented monitoring processes and procedures to meet CMS protocols as well as departmental program and contractual requirements. We also have reviewed, revised, updated, and developed Waiver policies and procedures; initiated training on problem areas; and re-implemented the technical assistance letters to ensure consistency and clarification of problem areas. We will, upon application for the Waiver renewal, revise the agreement to insure internal consistency. We will revise all instructions to insure consistency in interpretation and implementation of written policy. Additionally, as previously mentioned in this response, the ASCDS staff have revised the *Care Management Performance Criteria* and created a new document, *Operating Criteria*, that is attached to the Waiver contract each year.

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Anticipated Completion Date: The processes to update, revise, or create appropriate manuals, policies, procedures, and directives were initiated in early 2004 and will continue. This is a joint effort with the MSA policy division. On-site and off-site Waiver agent monitoring and training will continue to ensure adherence to the program dictates. The target date for Waiver renewal is October 1, 2007.

Responsible Individual: James Schwartz, Manager ASCDS
Robert Orme, Program Policy

DCH Audit Epilogue: The evidence does not support the section's contention that the Care Management Performance Criteria is not applicable to Waiver clients. The Waiver agents' primary function is to provide care management to their clients. We only found one agent that actually provided direct Waiver services to their clients. In addition, the section is clearly applying the guidance provided in this document as support for their contention that reassessments for stable clients only have to be performed every 180 days, rather than every 90 days for "active cases" (see response to finding 1.b. above). There has not been documentary evidence provided specifically exempting Waiver agents from the requirements set forth in the Care Management Performance Criteria.

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Finding Number:	Five
Finding:	Contractor Monitoring of Subcontractors
Recommendations:	We again recommend that MDCH take appropriate action to ensure that Contractors develop the appropriate monitoring policies and procedures to identify and correct any subcontractor deficiencies. We again recommend that MDCH ensure the Contractors submit their monitoring reports that require corrective action.
Comments:	We agree.
Corrective Action:	ASCDS staff began implementing monitoring activities in 2004 and continue to implement monitoring requirements. ASCDS staff reviewed each Waiver agent's policies and procedures in 2004. Waiver agents found out of compliance submitted corrective action plans and all Waiver agents have since been deemed fully compliant. Additionally, ASCDS staff has begun the Administrative Quality Assurance Review process and will review all policies and procedures for each Waiver agent using this new process. As of 10/01/2005, the ASCDS changed the requirement for submission of monitoring schedules to MDCH to a date after the beginning of the fiscal year. ASCDS is requiring Waiver agents to submit <u>all</u>

	subcontractor monitoring reports to MDCH as they are completed beginning 10/1/2006.
Anticipated Completion Date:	Corrective action was initiated on 1/1/2004 and is in effect for audit periods subsequent to that date.
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Six
Finding:	MDCH Monitoring
Recommendation:	We recommend MDCH conduct its monitoring practices and reviews as stated in the Quality Management Plan and the Corrective Action Plan from the July 2002 audit or develop applicable monitoring procedures to comply with the requirements of the Waiver application.
Comments:	We agree.
Corrective Action:	Monitoring activities following the previous audit did not begin until 2004. ASCDS completed an on-site review of program records in March 2006 by the University of Michigan, School of Nursing. Four reports for this round of quality assurance reviews have been sent to Waiver agents, the rest are forthcoming. Additionally, ASCDS staff have developed and offered the *Care Management for the MI Choice Waiver* training to all Waiver agents. Training has been provided to 17 of the 21 agents. ASCDS staff has also begun the process of administrative quality assurance reviews and will monitor in depth each Waiver agent's policies, procedures, financial management, quality management plan, and provider monitoring practices.
Anticipated Completion Date:	Corrective action was initiated on 1/1/2004 and is in effect for audit periods subsequent to that date.
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Seven
Finding:	Payment Authorizations
Recommendations:	We recommend that MDCH monitor Contractors to ensure that plans of care are updated in a timely manner. We also recommend that MDCH monitor Contractors to ensure they maintain documentation for services approved that were not on the plan of care.
Comments:	We agree.
Corrective Action:	ASCDS staff began implementing monitoring activities in 2004 and continues to implement monitoring requirements. Upon assuming control of the day-to-day operations for the Waiver program in early 2004, this section has developed, initiated, and implemented monitoring processes and procedures to meet CMS protocols as well as departmental program and contractual requirements. We now have a monitoring tool in use by the MICQAR team and in-house staff who perform on-site administrative quality assurance reviews. Through the use of this tool and the MICQAR team and our recently initiated on-site program/financial review being conducted by our contract managers, we will ensure that care plans are updated appropriately and supporting documentation is maintained. We issued a Waiver program Technical Advisory Letter #14 to all agents as a

	reminder of their responsibility to ensure timely updating of care plans and ensuring supporting documentation for services approved that were not on the care plan.
Anticipated Completion Date:	Corrective action was initiated on 1/1/2004 and is in effect for audit periods subsequent to that date. This will always be a work in progress. On-site and off-site Waiver agent monitoring and training has and will continue to ensure adherence to the program dictates. The technical advisory letter was issued September 14, 2006.
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Eight
Finding:	Entry of Billing and Contract Data into MICIS
Recommendation:	We again recommend MDCH ensure Contractors enter service invoices and contract data accurately in their billing systems, and Contractors maintain appropriate written documentation to support information entered.
Comments:	We agree. However, a 1% error rate in items (a) and (b) are immaterial and insignificant.
Corrective Action:	We will continue to monitor and ensure that appropriate documentation is maintained and that agents accurately input data into the data systems.
Anticipated Completion Date:	Corrective action was initiated on 1/1/2004 and is in effect for audit periods subsequent to that date. This will always be a work in progress. On-site and off-site Waiver agent monitoring has and will continue to ensure adherence to the program dictates.
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Nine
Finding:	Administration Rate Approval and Supporting Documentation
Recommendations:	We again recommend MDCH obtain written approval from CMS for the use of per diem administration rates. We again recommend MDCH require all Contractors to separately account for all administrative expenses. We again recommend any per diem rates established by MDCH be determined and supported by appropriate documentation.
Comments:	We agree.
Corrective Action:	We agree. In our renewal of the Waiver we will seek CMS approval for our reimbursement methodology as it pertains to Waiver agents and their administration costs and the provision of care management. We will implement a cost allocation methodology to separate care management costs from administrative expenses. Waiver agents will be required to document and maintain documentation in the separation of administrative expenses from services at the close of the fiscal year beginning in October of 2007.

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Anticipated Completion Date:	October 2007
Responsible Individual:	Robert Orme, Program Policy Jim Schwartz, Manager ASCDS

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Finding Number:	Ten
Finding:	Excess Administrative Funding
Recommendation:	We recommend MDCH require all Contractors to use Waiver funding only for expenses of the Waiver or other Medicaid programs, or in the alternative seek specific approval from CMS.
Comments:	We agree.
Corrective Action:	We have added language to the FY 2007 contracts stating that all Waiver funds received from the state must be used for the provision of Waiver-related services and activities that benefit the agent's Waiver participants.
Anticipated Completion Date:	October 1, 2007
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Eleven
Finding:	Cost Allocation Documentation
Recommendation:	We again recommend MDCH ensure that all cost allocation plans utilized by Contractors are: supported by appropriate documentation; based upon appropriate methodologies; completed in accordance with the Waiver application and federal requirements; and retained for six years.
Comments:	We agree.
Corrective Action:	Our on-site program/financial reviews will verify that the agents' cost allocation plans are supported by appropriate documentation and methodologies and based upon assurances by the Waiver agent's annual audit report.
Anticipated Completion Date:	September 30, 2007
Responsible Individual:	James Schwartz, Manager ASCDS

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Finding Number:	Twelve
Finding:	Contract Settlements
Recommendation:	We again recommend MDCH complete contract settlements on a timely basis. We also recommend MDCH develop procedures for the completion of contract settlements.
Comments:	We agree. On occasion there are circumstances beyond our control (changing data systems and late eligibility determinations in southeastern Michigan). In such cases we have to modify our contract language.
Corrective Action:	To ensure sufficient and reasonable timeframes to accomplish the settlement processes, initial settlements will now be done within 180 days of the close of the fiscal year, with final settlements being done 90 days after the 180 day period. This timeframe is still subject to eligibility issues that DCH does not have control over. These new time frames are reflected in the FY2007 contracts. We will develop a written and understandable process for the settlement procedure that is contained in the Waiver agent contracts.
Anticipated Completion Date:	October 1, 2006
Responsible Individual:	James Schwartz, Manager ASCDS